



ANDRÉS

wines Ltd.

annual report

march 31, 1974





Directors' Report to Shareholders

SALES

Although the year 1974 did not meet our expectations we feel that your company performed very well in spite of adverse conditions affecting the Canadian and indeed the entire North American wine industry.

After annual sales increases of 11% over the past several years the growth in Canadian wine sales nationally dropped to 1% compared to last year. Your company's sales increased 4%, even though we did not participate in the Quebec market where Canadian wine sales increased 14% over last year. The decreased growth rate in Canadian wine sales is generally attributed to the disruptive effect of rapidly increasing prices of foreign wines, which appear to have resulted from increased purchases largely as a hedge against further price increases. Similar trends were noted in the wine industry in the United States. Net Sales for the year were \$14,533,970. compared to \$13,974,549. last year.

EARNINGS

Your company's earnings decreased by 16% compared to last year. We believe that André's performance was substantially better than other publicly owned wineries reporting in Canada and the United States. The decreased industry profits are the result of rapidly escalating costs which could not be passed on to the consumer in a timely manner. In Canada this factor is particularly operative because of the marketing system through provincial liquor control boards. Net earnings for the year were \$1,727,636. as compared to \$2,065,556. for last year. Fully diluted earnings per common share amounted to \$1.62 as compared to \$1.93 in 1973, while basic earnings per common share amounted to \$1.84 as compared to \$2.53 in 1973.

DIVIDENDS AND RETAINED EARNINGS

Your Directors have decided that the company has achieved the stage of development where the payment of dividends is appropriate. Accordingly the company declared an initial dividend of 30¢ on the common shares to shareholders of record on April 1, 1974. Semi-annual dividends totalling 60¢ per share for the year were declared and paid on the outstanding preferred shares. Total dividends for the year amounted to \$306,884. Retained Earnings increased to \$5,290,176. from \$3,872,683. in 1973.

FINANCIAL

Working Capital increased to \$3,613,645. from \$3,064,859. in 1973. Capital expenditures during the year amounted to \$2,832,962. As the company has now completed its program to expand the facilities at its various plants, no major capital expenditures will be required this year.

HIGHLIGHTS OF THE YEAR

During the year the company purchased all the outstanding shares of Vins Calona Inc. of St. Hyacinthe, Quebec. This acquisition gives us a fine modern building of 50,000 sq. feet in an attractive setting on 27 acres of land, fronting on the Trans-Canada Highway on the outskirts of St. Hyacinthe. The winery, 30 miles from Montreal, is ideally located to serve the Quebec market and is fully equipped with modern facilities. The Quebec authorities have permitted us to ship bulk wines from our other plants to St. Hyacinthe during the initial phase of operations. We expect to have a full line of our André's wines on sale in Quebec this summer from our new plant now renamed Les Vins André's du Québec Ltée. Despite the appearance of a number of imitations, André's Baby Duck continues to be the largest selling brand of wine in Canada. Sales of our premium table wines first introduced one year ago in natural cork finished bottles are proceeding very well. Most recently, we have introduced in Ontario, André's Vin de Chaunac, a premium dry red table wine pressed entirely from hybrid grapes grown in the Niagara area. The wine was named in honour of Mr. Adhemar de Chaunac who first introduced the viticulture of hybrid grapes in Ontario 40 years ago.

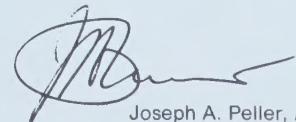
OUTLOOK

The Canadian per capita consumption of wines while continuing to increase remains well below that of the countries of North America and Europe with similar cultures. The growing interest in wine as the beverage to compliment good dining and celebrate social events continues. We expect Canadian wine sales will resume the growth rate of the past several years. The entry into the Quebec market provides your company with an opportunity for further growth. Price increases offsetting the rising costs of the past year have been put into effect in a number of provinces. In the past year the company maintained its record of increasing sales above the industry average and we expect to continue to do so.

It is with the deepest regret that we record the loss through death of two Directors during the year, Mr. B. R. James and Mr. G. W. Snelgrove. Mr. Snelgrove had been associated with the company since 1961 and Mr. James since 1966. The wise counsel and expertise of these Directors will be missed by the company. Mr. Ronald E. Sobier and Mr. George S. Dembroski were elected to the Board during the year.

It is once again a pleasure to acknowledge the resourcefulness and commitment of our employees as well as the support of our shareholders, customers and business associates.

On behalf of the Board.



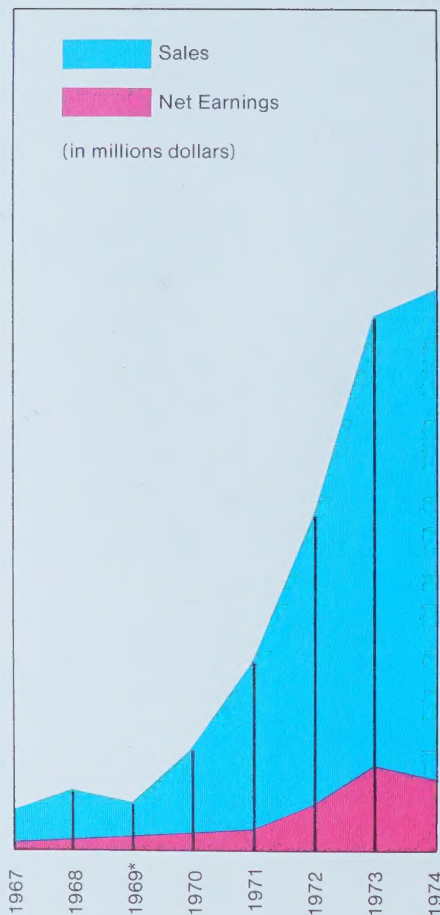
Joseph A. Peller, President

The Year in Review

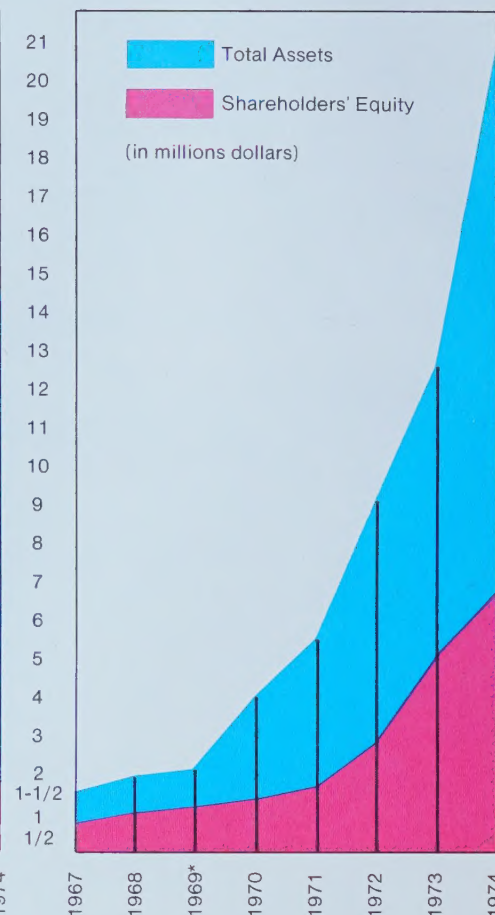
(in thousands dollars)



	1974	1973
Sales	14,534	13,975
Depreciation	525	356
Income Taxes ...	1,215	1,957
Net Earnings ...	1,728	2,066
Net Earnings per share (in dollars)		
— Basic	1.84	2.53
— Fully Diluted ...	1.62	1.93
Dividends	307	20
— per preferred share60¢	.60¢
— per common share30¢	—
Total Assets	20,935	12,626
Shareholders' Equity	6,790	5,009



*Represents seven months only



*Represents seven months only



Consolidated Statement of Earnings

For the Year Ended March 31, 1974

	1974 \$	1973 \$
SALES	14,533,970	13,974,549
COSTS AND EXPENSES		
Manufacturing, selling and administration	10,592,809	9,244,303
Depreciation	524,539	355,995
Interest on long-term debt	340,801	233,211
Amortization of deferred charges and other assets	25,838	30,407
	<u>11,483,987</u>	<u>9,863,916</u>
	3,049,983	4,110,633
PROVISION FOR INCOME TAXES		
Current	543,321	1,740,428
Deferred	671,679	216,314
	<u>1,215,000</u>	<u>1,956,742</u>
	1,834,983	2,153,891
MINORITY INTEREST IN NET EARNINGS OF SUBSIDIARY COMPANIES	107,347	88,335
NET EARNINGS FOR THE YEAR	<u>1,727,636</u>	<u>2,065,556</u>
EARNINGS PER COMMON SHARES (Note 6)		
Basic	\$1.84	\$2.53
Fully diluted	<u>\$1.62</u>	<u>\$1.93</u>

Consolidated Statement of Retained Earnings

For the Year Ended March 31, 1974

	1974 \$	1973 \$
BALANCE — BEGINNING OF YEAR	3,872,683	1,827,116
Add: Net earnings for the year	1,727,636	2,065,556
	<u>5,600,319</u>	<u>3,892,672</u>
Deduct: Dividends — Common	286,895	—
— Preferred	19,989	19,989
Change in minority interest in a subsidiary company	3,259	—
	<u>310,143</u>	<u>19,989</u>
BALANCE — END OF YEAR	<u>5,290,176</u>	<u>3,872,683</u>





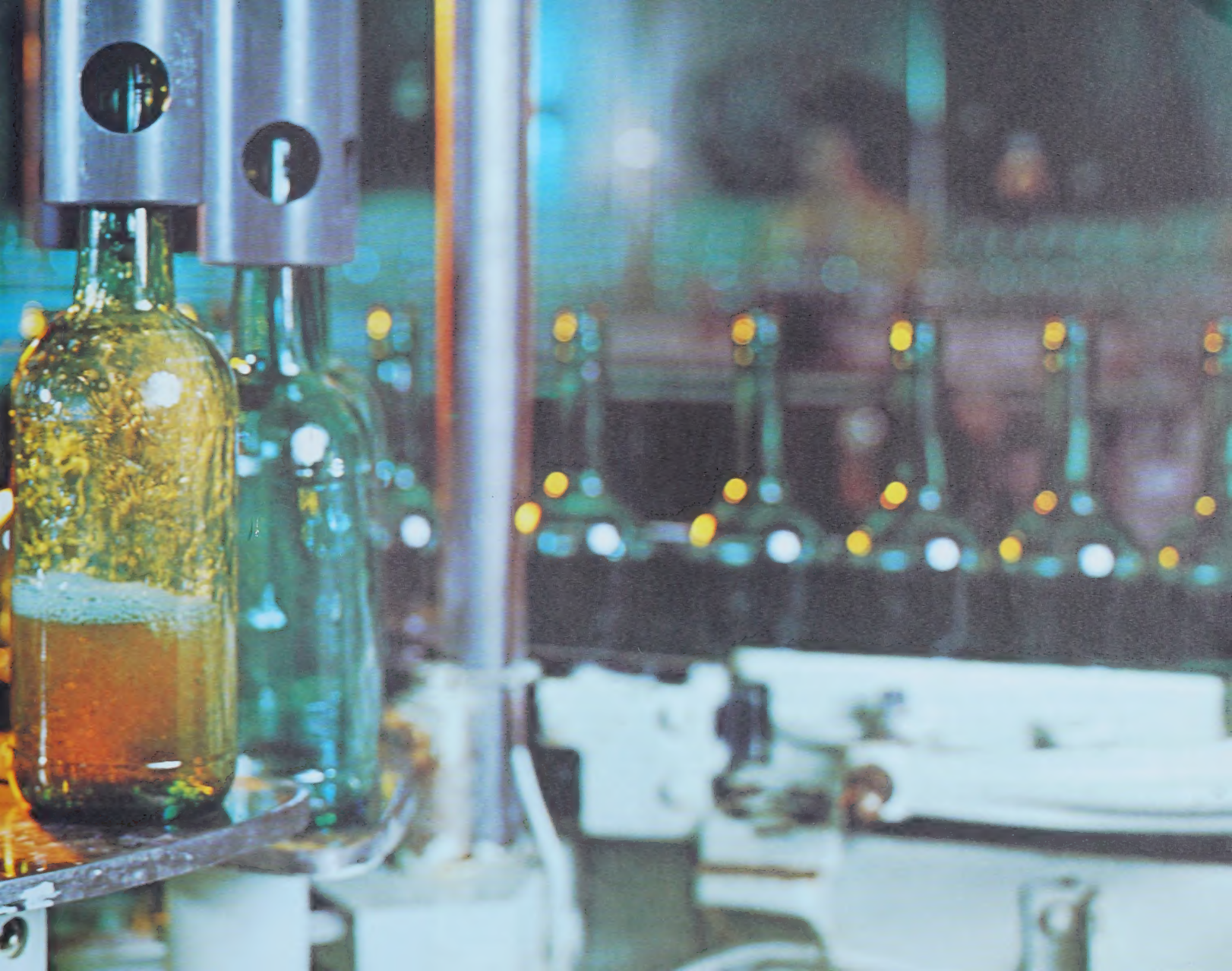
Consolidated Statement of Source and Use of Working Capital

For the Year Ended March 31, 1974

	1974 \$	1973 \$
SOURCE OF WORKING CAPITAL		
Net earnings for the year	1,727,636	2,065,556
Items not affecting working capital —		
Depreciation	524,539	355,995
Amortization of deferred charges and other assets	25,838	30,407
Deferred income taxes	671,679	216,314
Minority interest in net earnings of subsidiary companies	107,347	88,335
Provided from operations	3,057,039	2,756,607
Increase in long-term debt — net (Note 4)	1,322,539	—
Working capital acquired on acquisition of subsidiary company	1,184,490	—
Proceeds on exercise of common share options	363,030	168,805
Decrease in agreement receivable	296	213
	<u>5,927,394</u>	<u>2,925,625</u>
USE OF WORKING CAPITAL		
Additions to fixed assets	2,832,962	1,446,031
Purchase of shares of subsidiary companies	2,236,452	—
Dividends	309,194	22,299
Decrease in long-term debt — net	—	455,760
	<u>5,378,608</u>	<u>1,924,090</u>
INCREASE IN WORKING CAPITAL	548,786	1,001,535
WORKING CAPITAL — BEGINNING OF YEAR	3,064,859	2,063,324
WORKING CAPITAL — END OF YEAR	<u>3,613,645</u>	<u>3,064,859</u>

Andrés Candlelight & Wine Concerts feature the Hamilton Philharmonic Orchestra and world-famous guest soloists in a relaxed, intimate setting at Hamilton Place, Hamilton's widely acclaimed new entertainment complex.





Consolidated Balance Sheet as at March 31, 1974

Assets

	1974 \$	1973 \$
CURRENT ASSETS		
Accounts receivable	1,708,844	1,615,346
Inventories of wine and supplies — at the lower of cost and net realizable value	8,711,898	5,858,510
Prepaid expenses	192,678	206,274
Income taxes recoverable	<u>537,343</u>	<u>—</u>
	<u>11,150,763</u>	<u>7,680,130</u>
7% AGREEMENT RECEIVABLE ON SALE OF LAND — Due September 1, 1984	<u>32,160</u>	<u>32,456</u>
FIXED ASSETS		
Land, buildings and machinery and equipment — at cost less accumulated depreciation (Note 2) . .	9,652,254	4,781,029
Leasehold improvements — at cost less amortization	<u>42,175</u>	<u>48,866</u>
	<u>9,694,429</u>	<u>4,829,895</u>
OTHER ASSETS — at cost less amortization		
Preproduction and other deferred charges	23,713	37,059
Financing expenses	12,729	17,800
Organization expenses	<u>21,330</u>	<u>28,750</u>
	57,772	83,609
Signed on behalf of the board:		
J. A. Peller, Director		
G. R. Dawson, Director	<u>20,935,124</u>	<u>12,626,090</u>





Liabilities

	1974 \$	1973 \$
CURRENT LIABILITIES		
Bank advances (Note 3)	5,623,239	2,330,246
Accounts payable and accrued liabilities	700,016	687,901
Dividends payable	286,895	—
Income and other taxes payable	241,268	1,109,424
Current portion of long-term debt	685,700	487,700
	<u>7,537,118</u>	<u>4,615,271</u>
LONG-TERM DEBT (Note 4)	4,992,824	2,160,936
DEFERRED INCOME TAXES	1,014,500	342,821
MINORITY INTEREST IN NET ASSETS OF SUBSIDIARY COMPANIES (including \$338,915 applicable to preferred shares — 1973 — \$340,015)	<u>600,874</u>	<u>497,777</u>
	<u>14,145,316</u>	<u>7,616,805</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized		
250,000 Preferred shares of the par value of \$10 each, issuable in series, of which 125,000 are designated as Series A 6% cumulative pre- ferred shares, redeemable at a 6% premium		
3,000,000 Common shares without par value		
Issued and fully paid		
33,315 Series A preferred shares	333,150	333,150
956,318 Common shares (1973 — 831,681 common shares) (Note 5)	<u>1,166,482</u>	<u>803,452</u>
	<u>1,499,632</u>	<u>1,136,602</u>
RETAINED EARNINGS	5,290,176	3,872,683
	<u>6,789,808</u>	<u>5,009,285</u>
	<u>20,935,124</u>	<u>12,626,090</u>

Les Vins André du Québec Ltée, in St. Hyacinthe, Que. This 50,000 sq. ft. facility is a significant addition to the André group of wineries across Canada.

Notes to Consolidated Financial Statements

For the year ended March 31, 1974.

1. PRINCIPLES OF CONSOLIDATION

These financial statements include the accounts of Andrés Wines Ltd. and its subsidiaries, Andrés Wines (B.C.) Ltd., Andrés Wines (Alberta) Ltd., Andrés Wines Atlantic Ltd., and Les Vins Andrés du Québec Ltée. All of the issued and outstanding shares of Les Vins Andrés du Québec Ltée were acquired on January 1, 1974 at a cost of \$2,231,252. The accounts of this subsidiary are included from the date of purchase.

2. FIXED ASSETS

	1974			1973
	Cost	Accumulated Depreciation	Net	Net
	\$	\$	\$	\$
Land	564,002	—	564,002	217,513
Buildings	4,193,198	286,277	3,906,921	2,117,960
Machinery and equipment	6,832,791	1,651,460	5,181,331	2,445,556
	<u>11,589,991</u>	<u>1,937,737</u>	<u>9,652,254</u>	<u>4,781,029</u>

3. SECURITY FOR BANK ADVANCES

Book debts have been pledged as security for bank loans. The company and its subsidiaries have also given a fixed and floating charge debenture on all assets ranking after the claims of other creditors described in Note 4, as collateral security for the bank advances.

4. LONG-TERM DEBT

	1974	1973
	\$	\$
Bank advances repayable \$380,000 annually plus interest at prime bank rate plus 1-3/4%	1,409,998	690,000
Promissory notes due January 1, 1978 and 1979, with interest payable semi-annually at prime bank rate plus 1/2%	1,231,252	—
Debentures due January 1, 1980 and 1981 with interest, payable semi-annually at prime bank rate plus 1/2%	1,209,349	—
Non-interest bearing debenture due January 1, 1981	300,000	—
Mortgage repayable in semi-annual instalments of \$90,000 plus interest at prime bank rate plus 1/2%	720,000	1,004,099
11-1/4% Mortgage bonds repayable in quarterly instalments of \$21,250 plus interest	531,250	616,250
9% First mortgage bonds, Series A, repayable in quarterly instalments of \$6,300 plus interest	163,800	189,000
10% Debentures due May 15, 1980 with interest payable semi-annually 9-1/4% Serial debenture, repayable in quarterly instalments of \$2,875 plus interest	75,000	75,000
9% Mortgage repayable in annual instalments of \$4,000 plus interest	25,875	37,375
7% First mortgage repayable semi-annual instalments of \$1,000 plus interest due May 31, 1973	12,000	16,000
	—	20,912
	<u>5,678,524</u>	<u>2,648,636</u>
Less: Current portion	685,700	487,700
	<u>4,992,824</u>	<u>2,160,936</u>



5. STOCK OPTIONS

163,352 (1973 — 287,989) unissued common shares have been reserved under stock option agreements of which 138,712 (1973 — 263,349) have been granted, including 118,000 (1973 — 227,000) to directors and officers. As at March 31, 1974 51,000 (1973 — 117,100) shares were currently exercisable under the terms and conditions of the option agreements. The option price is either \$2.45 or \$3.00 and all options expire between November 18, 1981 and March 31, 1982.

During the year, options on 19,783 common shares, including 9,000 shares to directors and officers of the company, were exercised at the option price of \$2.45 per share, and options on 104,854 shares, including 100,000 to officers and directors of the company were exercised at the option price of \$3.00 per share.

6. EARNINGS PER COMMON SHARE

Earnings per common share is based on the net earnings for the year (less the 6% cumulative preferred share dividends) and the weighted average number of common shares outstanding during the year.

Fully diluted earnings per common share assumes the exercise of the shares granted under stock option agreements mentioned in Note 5 and investment of the proceeds at 9% (1973 — 7%) less applicable income taxes.

7. LEASE COMMITMENTS

The company and its subsidiaries have entered into lease/purchase agreements for production equipment with a total annual rental of approximately \$162,000 to December 31, 1977. The companies have an option to purchase this equipment during the lease term at decreasing amounts to expiry date.

8. STATUTORY INFORMATION RE: DIRECTORS AND OFFICERS

Information required by Section 122.2 of The Canada Corporations Act is:

(a) There were twelve directors whose aggregate remuneration was \$9,800 (1973 — \$15,900)

(b) There were six officers whose aggregate remuneration as officers was \$223,000 (1973 — \$190,681)

(c) The number of officers who were also directors was four.

Certain directors and officers of the company hold similar positions in the subsidiary companies for which they received no remuneration.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Andrés Wines Ltd. and its subsidiaries as at March 31, 1974 and the consolidated statements of earnings, retained earnings and source and use of working capital for the year then ended. Our examination of the financial statements of Andrés Wines Ltd. and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of one subsidiary, Andrés Wines Atlantic Ltd. In our opinion, these consolidated financial statements present fairly the financial position of the companies as at March 31, 1974 and the results of their operations and the source and use of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Eight Year Summary

	1974	1973	1972	1971	1970	(Seven Months) 1969	1968	1967
INCOME STATISTICS (in thousands dollars)								
Sales	14,534	13,975	8,660	4,832	2,592	1,129	1,358	983
Income Taxes	1,215	1,957	1,023	461	200	75	53	7
Net Earnings before Minority Interest	1,835	2,154	1,121	452	296	105	89	55
Net Earnings	1,728	2,066	1,050	413	250	105	113	54
Net Earnings Per Common Share								
— Basic	\$1.84	\$2.53	\$1.48	\$.572	\$.335	\$.123	\$.136	\$.052
— Fully Diluted	\$1.62	\$1.93	\$1.03	\$.533	\$.335	\$.123	\$.136	\$.052
DIVIDEND RECORD (in dollars)								
Per Preferred Share	\$.60	\$.60	\$2.10	—	\$.35	\$.70	—	—
Per Common Share	\$.30	—	—	—	—	—	—	—
BALANCE SHEET STATISTICS (in thousands dollars)								
Working Capital (deficiency)	3,614	3,065	2,063	1,443	1,544	428	402	(11)
Fixed Assets (net)	9,694	4,830	3,740	2,371	1,747	1,009	956	682
Long-Term Debt	4,993	2,161	2,617	1,978	1,961	412	441	87
Minority Interest	601	498	412	347	267	222	236	54
Shareholders' Equity	6,790	5,009	2,795	1,639	1,248	1,009	941	815
Total Assets	20,935	12,626	9,217	5,489	4,078	2,113	1,893	1,422
NUMBER OF SHARES OUTSTANDING								
Preferred Shares — Series A ...	33,315	33,315	33,315	33,315	33,315	33,211	33,155	32,433
Common	956,318	831,681	762,781	687,681	687,681	686,401	677,277	669,942

Note: The year end was changed from August 31st to March 31st in 1969.

DIRECTORS

E. S. Arnold, Grimsby, Ontario
 J. A. Boychuck, Burlington, Ontario
 G. R. Dawson, Vancouver, B.C.
 G. S. Dembroski, Toronto, Ontario
 R. H. Jenkins, Calgary, Alberta
 C. O. Nickle, Calgary, Alberta
 C. Norwood, Halifax, Nova Scotia
 A. Peller, Ancaster, Ontario
 J. A. Peller, M.D., F.R.C.P.(C),
 Ancaster, Ontario
 R. E. Sobier, Don Mills, Ontario
 W. J. Walsh, M.D., F.R.C.P.(C),
 Hamilton, Ontario

REGISTRAR AND TRANSFER AGENT

The Canada Trust Company
 Montreal, Toronto, Calgary and Vancouver

AUDITORS

Coopers & Lybrand

OFFICERS

A. Peller, *Chairman of the Board*
 J. A. Peller, *President*
 E. S. Arnold, *Executive Vice-President*
 J. A. Boychuck, *Vice-President, Marketing*
 N. D. Smith, *Vice-President, Finance*
 and *Secretary*

BANKER

The Royal Bank of Canada

HEAD OFFICE

Winona, Ontario

PLANT LOCATIONS

(including subsidiaries)
 Port Moody, British Columbia
 Calgary, Alberta
 Winona, Ontario
 St. Hyacinthe, Québec
 Truro, Nova Scotia



